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## RELATION OF THE CONTRACTOR OR SPECULATOR TO THE WORLD'S OCEAN TRANSPORTATION PROBLEM

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The service rendered by the regular liner to the merchant shipper of general cargo is well recognized and, since much has been written on the subject elsewhere, it is necessary to refer to it only briefly in order to draw a parallel between the relations on the one hand between the liner and the shipper of cotton goods, railway material, machinery, packing-house products, steel products, and the thousand and one other commodities that go to make up the great diversified exchange of general merchandise between nations, and on the other to those that exist between the contractor and the great consumers or handlers of raw products, such as coal, ore, etc.

The shipper of general merchandise who makes his sales in a foreign country receives his orders by mail or cable for shipment sometimes many months ahead, and whether in lots of five tons or hundreds or thousands, he can go to the liner, book his freight room at a fixed price, and forget all about the arrangement until the time for shipment arrives. It is then only a matter of details which can be attended to by his clerk. But shipments of raw material, which run into millions of tons, must seek the cheapest vehicle of transportation and must rely entirely upon the workhorse of the ocean—the tramp steamship.

Here is met at once an apparently insurmountable difficulty inasmuch as the market price of tramps fluctuates constantly, and a definite knowledge of the cost of transportation is as essential to the shipper and receiver of raw material as it is to the merchant who trades in manufactured articles; in fact more so, inasmuch as the freight charge bears a larger ratio to the value of bulk cargoes than it does to manufactured articles. Nor are such shippers and receivers in the same position as the sellers and buyers of wheat, for example, which, unless carried by the liner, is traded in cargo lots and is bought and sold on the basis of the tramp market as it exists from day to day.

A concrete example is that of a miner of iron ore endeavoring to make a sale to a large steel works in another continent or country. The quantity may be a million tons a year and the contract may extend over several years. The steel works must know the exact cost of the ore, not at the mine at the other end of the world, but when delivered at the furnaces or into the stockpile at the works. A variation of a small decimal will upset the cost sheet, and as any responsible official will feelingly confirm, will result in inquiries from headquarters into the cause. Moreover, the miner is not in position to sell his output on a cost-and-freight-delivered basis. He will sell it f.o.b. at the seaboard as he can get an inland rail rate that is fixed, or perhaps he operates a short railroad from the mine to tidewater himself. But to guarantee the ocean transportation is quite beyond his power.

No tramp owner will undertake this business for reasons that will be set out fully hereafter. It would also be absolutely impossible for the steel company to undertake it. Consequently a middleman becomes an essential part of the chain and the contractor or speculator is brought into being. His requirements are that he must be a man of means who can and will carry out his bargain to the last ton if the freight market of the world goes against him. He must understand every phase of the chartering business, and from the time he bids for the contract, through every move to its ultimate conclusion, he must act with the same courage that is required of every player in any hazardous game whose presiding deity is chance.

When the speculator quotes a rate the miner and the steel works can come to terms, and can thereafter proceed to attend to the mining of ore and the making of steel with no more responsibility or worry as to how the great tonnage involved is moved than is required in putting their money into the slot and pressing a button. The worries of the contractor, however, have only just begun, and we will follow the moves which he makes to place himself in a position to fulfill his contract.

The task of moving such a volume of cargo from a given point means a steamer under the chutes every two or three days, and as vessels cannot be conjured out of thin air, the contractor must supply himself with a fleet of boats that are at all times under his control and subject to his orders. This he does by taking enough steamers

on time charter for long or short periods of time to cover a more or less substantial portion of his commitment (the number varying according to whether the shipping point is in a neighborhood where large numbers of tramps end their voyages or not), filling up the gaps with steamers taken on rate charters whose owners' plans lead them to make a voyage in the direction desired.

The working of these boats back from the point at which they deliver their ore cargoes so that they are in a position to take another, and at the same time so to space them that a regular flow of cargo can be relied on, on the one hand, and no expensive congestion of boats result on the other, is where the skill and ingenuity of the contractor are taxed to the utmost. As business begets business, other contracts are taken which dovetail into the first, and further boats must be chartered until the contractor becomes the operating owner of what would constitute an unusually large fleet of cargo boats under one management.

It may be asked why the owners of tramp steamers, or syndicates of such owners, do not undertake these contracts and thus eliminate the middleman and the profit he hopes to make. Such a practice would be contrary to the whole policy of cargo-boat owners, who hold their ships to take advantage of the events of the world—wars, political turmoils, crop successes and failures, and the like—and to be free to avoid strike areas or markets where delays occur or where a congestion of tonnage seeking business means falling freight rates or perhaps long trips in ballast. Owners, therefore, do not commit themselves to business that will take all of their fleet in one direction for a long period of time unless on a time charter basis, in which case they transfer all risks of market and delay and have a definite profit to count on. The tramp owner who should on any other basis venture to put all his eggs in one basket would incur certain criticism from his shareholders, and except in the case of a world-wide fall in charter rates, which would leave the business he took substantially above the current market, he would be unable on any plea of precedent or practice to justify his policy.

Even in such a case many pitfalls would lie in his path, as it is notorious that when business is active and general rates are high the shipper under contract clamors for the maximum that he has the right to ship, and more if he can in any way force the contractor

to supply tonnage; and vice versa when rates are down and the contract is of benefit to the carrier with tonnage easily obtainable, the contract shipper touches all the chords of sympathy in his efforts to take only the minimum or to suspend shipment altogether. This condition the speculator recognizes from long and bitter experience to be an essential part of the business, but the shipowner, accustomed to more exact and fair usages, would not respond to such treatment at all.

It is remarkable, too, that tramp owners find it so difficult to gauge the market when bidding on any unusual business, and this is especially true on a falling market. An owner will bid within a cent or two on grain or any other business for which fixtures have been recently made, but when it comes to something that is spasmodic, for instance the transportation of coals for our navy department, it is surprising to note the wide differences in individual owner's views, the bids varying more than \$2 a ton.

It is easy to see that ore business such as we have been considering, running up to hundreds of thousands of tons, could not be conducted with variations of \$2 between one cargo and the next, and while a market rate would gradually be established by which owners would be guided, the miner and the steel company prefer to let the contractor carry the responsibility of reaching a stable basis. It would seem to the uninitiated a simple matter to operate a fleet of a dozen or forty or fifty steamers on time charter, but it is in fact a most uncertain operation and many voyages that have started with the proforma calculations showing a handsome profit have been turned by bad weather, slow passages and delays in port into most disheartening losses. There is, also, always the bugbear of a long ballast voyage to get the boat into position or to fulfill a pressing commitment staring the time charter owner in the face.

It has been said that in the making of every time charter one of the parties thereto always makes a mistake, and that it is never the owner. There is much truth in that statement. Modern business demands the speculator and the latter cannot operate with safety without time charter tonnage. Thus a vicious circle is started of which the speculator is, and is destined to remain, the storm center.

Many owners feel that there ought to be no middleman, but it would be impossible for merchants to carry out their business

engagements under present competitive conditions unless they can induce a contractor who understands the chartering business to take the transportation responsibility off their shoulders. The speculator stands in the same position towards the freight market that a "short seller" does to any other market, and it is the "short," proverbially, who starts, supports and accentuates the "bull" periods when better times arrive. Moreover, it is of great benefit to the owner of a large fleet of cargo boats to be able to charter a proportion of his boats for long periods when rates are strong, in this way hedging against the future with part of his fleet while keeping the balance to take advantage of any further rise that may occur. This he can do only through the speculator. For these reasons, as well as for the more important one that the speculator creates much business with which the shipowner subsequently fills his vessels and which without his aid would never result in business at all, it would seem that such owners might afford to be more charitable in their attitude towards the constructive middleman in ocean commerce. It is clear that the speculator has his uses whenever large blocks of cargo are to be moved, and the illustration of the ore transaction may be regarded as typical of similar business in all parts of the world.

There are many other trades that require the services of a contractor for special reasons such as, for example, the large traffic in coal to, and sugar and ore from, Cuba and the other islands in the Caribbean Sea. There the merchants' requirements develop and change from day to day and they could not be served by owners far removed from the sphere of activities and imperfectly in touch with their needs; but like many other fields where the contractor is installed, the competition there is carried to excess and very low rates obtain in both directions.

The speculator who turns up occasionally as a competitor of the regular liner is of no service to anyone, being merely a disturbing element endeavoring to fill a place in which he is bound to fail because he is not there in response to any real need. In the transportation of rough material, however, he must be considered as an ally and adjunct of the tramp owner, and as such has a very definite and growing place in ocean transportation.